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United States
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Office of
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Major News Releases and Speeches

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Testimony

U.S. Department of Agriculture • Office of Governmental and Public Affairs

Testimony by Secretary of Agriculture John R. Block before the Joint Economic Committee, May 19.

Mr. Chairman and members of the committee, I appreciate the opportunity to appear before you and discuss future farm policy. I believe farm policy soon will be at a crossroads. The direction we take during the next few years will largely determine the nature and scope of the U.S. food and agriculture system as well as its role in the world economy for years to come. For this reason, much thought and attention must be given to the approach we take. I commend the committee for calling these timely hearings.

The Present Situation

We are all familiar with the circumstances that have led to the current economic condition of our farm sector. Briefly, excessive commodity supplies have accumulated during a time of weak global demand. In the past several years, a combination of world-wide recession, huge debt in a number of middle and low income countries, unfair trade practices, the Soviet grain embargo, a strengthening U.S. dollar, high interest rates and inflation and two consecutive bumper world harvests have had a dampening effect on the farm economy.

The administration's efforts to control inflation and reduce interest rates, combined with the payment-in-kind (PIK) program, are chiefly responsible for some improvement in the economic outlook in the farm sector. Since the announcement and implementation of the PIK program, farm prices for some major crops have strengthened significantly. The PIK program alone is expected to add \$2 to \$3 billion to net farm income and significantly reduce credit needs in 1983. This will put farmers on a sounder financial footing, which will work to benefit agriculture as a whole in the long term.

However, the PIK program was only intended to be a temporary measure to reduce excessive crop supplies. It is not and should not be construed as the final solution of the problems facing U.S. agriculture. The central question is: "Have we learned enough from recent

experiences to adopt policies that will not lead us back into the same situation that we had before PIK?" PIK was necessary, in large part, because of the magnitude of the stock imbalance and the large expense of dealing with such a situation with our more traditional policy tools. PIK will go a long way toward alleviating our current surplus stocks, but even after stock levels are reduced, we may still face the constant prospect of production once again significantly exceeding demand. Available evidence suggests that the capacity of American agriculture is more than adequate to meet the growth in demand that can be expected to accompany the economic recovery in the United States and rest of the world over the next several years. No one knows for sure, but I believe this is the predominate view of experts inside and outside of government. PIK is a program that deals with a symptom. It is designed to give the farmer the opportunity to stay in business as excessive supplies are reduced. At the same time, policymakers now have a very short-lived opportunity to reexamine the direction in which farm programs and policies have taken agriculture and determine what changes are necessary to keep the sector on course toward renewed prosperity. In a very real sense, the legacy of programs, policies and perceptions that were more appropriate for a past era are key factors that led to the need for a PIK program. What have we learned about past policies and actions that can apply to future programs?

The Decade of the 1970's and its Influence on Farm Policy

Generally, farm policy during the 1970's was geared toward expansion. During this inflationary period, U.S. farm exports tripled in response to heightened world demand. Farm production assets more than tripled in this time of heavy investment. As a result, principal crop acreage harvested in the U.S. increased by about 55 million acres and livestock production made a substantial gain. In other words, our farmers responded to the signals that were sent to them by the market. But we were not alone. Other exporting, as well as importing, nations also expanded their production capacity during this period.

This period began with the Agricultural Act of 1970 that introduced the set-aside concept and suspended the restrictive marketing quotas and base acreages for wheat, feed grains and upland cotton. Then, the Agriculture and Consumer Protection Act of 1973 formalized target

prices, but with the notion that income supports should not be allowed to disrupt the market. Later, the Food and Agriculture Act of 1977 provided for the implementation of the farmer-owned grain reserve to protect farmers during periods of downside price swings while ensuring adequate stocks to meet world and domestic needs.

The real worry by the end of the decade was a shortage of food—some have called it the "scarcity syndrome." The attitude was that we had to gear up to produce more food for the world and would run into natural resource constraints in doing so. During deliberations on the Agriculture and Food Act of 1981, the events of the 1970's were fresh in all our minds. In hindsight, too much so. One of the major shortcomings of farm policy has been our tendency to allow the current situation or recent events to dictate policies for the longer term. As we reexamine agricultural programs and policies, we must not allow current conditions to overshadow the realities of the future. There are no better examples of that than the 1981 experience. We had just come through a period of major expansion in the export earnings of the U.S. agricultural sector. It was widely believed that the United States was the only country that could produce enough food to satisfy the world's needs. Events of the 1970's were taken as precursors of things to come. Because of inflation, high and rising world oil prices, and a weak dollar, forecasts of continued strong export demand, rising production costs and full production seemed reasonable expectations.

We all knew that there would be times when we would move off trend, due in large part to the international influence on the farm economy. International and domestic economies have become increasingly interdependent, and we have little control over some major variables such as exchange rates, growth rates and the like. While greater volatility was a reasonable expectation in an expanding world agricultural system, we were not prepared for the events that began unfolding in 1981 and have continued through the present. Simply put, we failed to give farm programs the flexibility to adjust to a changing environment.

When Congress adopted the 1981 act, yearly increases of 4 to 5 percent in target prices for program commodities seemed reasonable, and so did increased minimum loan rates that were to apply for four crop years. For wheat and corn, loan rates were increased by 11 percent

and 6 percent respectively from the levels prevailing for the 1981 crop programs. Even then, there was grave concern over indexing our way into a position of becoming less competitive in world markets. However, inflation was running nearly 3 times the rate of increase in target prices and even the most optimistic forecasts had production costs continuing to rise as rapidly as target prices. The inflationary environment also suggested that average variable production costs for program crops would continue to increase, and it was felt such increases in target prices were needed for the coming four years.

What Happened

Our price support levels have now become higher than market-clearing levels. Our fear of indexing our way out of world markets has become a reality to a certain extent for some commodities. International effects and the inflexibility in farm policy have led to an incentive to produce more, a position of being less competitive in world markets and, consequently, a buildup of stocks.

In a truly market-oriented agriculture, the loan rate cannot be allowed to interfere with the market or be the market price. With per unit production costs stabilizing or declining in some cases, inflation rates reduced, and the dollar strengthening internationally—the rigid programs we thought so appropriate only a few years ago are now threatening the economic viability of U.S. agriculture in the international marketplace and causing large budgetary outlays.

Present loan rates apparently are now attractive enough to induce increases in production each year, domestically. This is especially true now since the costs of inputs used in farming, as a whole, are projected to be up only slightly in 1983 and, in fact, the cost of some inputs may even show a decline. Fertilizer costs this year are expected to decline 2 percent and fuel costs 4 percent, while the costs of farm chemicals should rise less than 3 percent. With a decline in the rate of increase in farm machinery costs and lower interest rates, the costs of producing some major crops are expected to be steady or only slightly higher than in 1982.

Moreover, the world price floors, heavily influenced by the U.S. loan rate, have increased sharply in terms of other currencies. Thus, a major incentive also was created internationally for many to produce

more for the marketplace when less was needed. This led to excessive stock levels and the need for a PIK program. And while we are cutting back, others are producing more. Where do we go from here?

Alternatives for the Future

We can and we must learn from the past. Our agricultural sector is too important and too efficient to let this happen. It seems to me that our choices fall broadly into three different approaches to solving our agricultural problems.

We could continue with our current programs which have led to enormous government outlays in recent times. In the decade of the 1970's, the cost of farm programs generally ranged between \$3 and \$4 billion. But federal outlays for fiscal 1983 alone are expected to be about \$21 billion. This followed outlays of \$12 billion in FY 1982, double the \$6 billion outlays in FY 1981. The government cannot afford to continue to absorb these tremendous expenditures in the face of large deficits. At the present time, government outlays are nearly equal to net farm income. We cannot continue to operate a farm program with an incentive to overproduce, both here and abroad, while the government shoulders the entire burden of the overproduction. For this reason, the inflexibility in the current farm program makes it, it would seem, an unacceptable alternative for the future.

The second approach concerns a greater commitment to a market-oriented agriculture for us and the world. Under this approach, we would continue to be a major exporter of agricultural products. To do this we have to establish policies that assure the farmer "feels the market." In other words, allow farmers to receive accurate and timely market signals and be free to react accordingly. This does not preclude farm programs that bear some of the producers' risks, but it does mean that programs must be flexible to adjust to market conditions so unwarranted levels of stocks do not build.

The third alternative is to insulate American agriculture from the market by maintaining artificial price levels, similar to the current dairy situation. Ultimately, this would mean abandoning world markets or establishing a policy not unlike the Common Agricultural Policy of the European Community. It would mean a permanent and major

government role in agricultural markets with even larger budgetary expenditures without mandatory production and marketing controls.

No approach is costless. Those who would bear the costs differ somewhat according to the policy. However, in no case do farmers escape a major share of the adjustment burden. Let us consider more thoroughly the consequences of the two approaches I have outlined that differ from current programs.

The Minimum Price Approach

The minimum price policy would generally set a floor under agricultural prices well above prevailing world prices and in excess of the cost of producing most of our output or what others are willing to produce it for. There are several variations on this theme. Let us begin with the one I suspect would appear most popular, for at least a short time—high price supports with limited or no supply controls.

In its purest form, this proposal would legislate that farm products be sold for not less than some legally mandated price. With such an approach, we initially would expect farmers to respond to the higher price incentives by expanding production. However, the marketplace could not be expected to support both higher prices and expanded production in domestic markets—let alone world markets. The higher minimum price would also signal producers in the rest of the world that the U.S. was no longer willing to compete in world markets at price levels consistent with our farmers' comparative advantage in productivity and efficiency. As a result, other countries could be expected to increase production with the full knowledge that they would be protected by our price umbrella while they captured larger shares of world trade as they are partially doing right now. These market reactions would soon lead to a large expansion of stocks and increased federal budget outlays as the government would be forced to purchase the surpluses. This is very similar to our current situation; only the magnitude would be worse.

Although farm income would rise in the short run, the higher prices and incomes would be bid into higher land prices, more inputs would be used, higher production costs would result, and ultimately we would have a less efficient agricultural sector, perhaps not unlike that in parts of the European Community. Uncontrolled supply would not be viable

over a long period of time as taxpayer support and sympathy for the need for farm programs would undoubtedly wane and pressures would mount to reduce stocks.

Proposals to legislate mandatory production controls, such as marketing quotas, would crop up as a means of reducing the surplus and the attendant budget costs to maintain the high support prices. But such a program would be difficult to administer and police, and it would result in the continued sheltering of inefficient producers while further reducing the overall competitiveness of American agriculture. Also, there would be less acreage in production, and jobs relating to agriculture would be lost.

As a result of lost markets to our competitors and less economic activity associated with agriculture, pressure would then mount for subsidizing exports. To accomplish this, some have suggested segmenting the U.S. and world markets. Marketing boards or dual pricing systems are often touted as the means for accomplishing price and income objectives. Under some of these plans domestic prices would be set higher than world prices, and either direct government subsidy or revenues earned through domestic sales would be used to buy down the price of commodities entering foreign markets. One only has to study the European Community (EC) system to understand how cumbersome and extremely costly such a scheme would be.

The EC experience serves as an example of such a policy, a policy that rewards the inefficient and penalizes the efficient, locks in production patterns and technology, and assures that the agricultural system does not adjust to change. We have numerous examples of industries in the United States that have done just that by being insulated from the realities of world markets through import protection or other means. In the longer context, it has not been a favor to those industries, and agriculture would be no different.

The More Market-Oriented Approach

Now let us turn to the market-oriented option. Since the mid-1960's we have been inching along in the direction of a more market-oriented agriculture. We have abandoned quotas and allotments for most crops. We have increasingly recognized the need for program features that

minimize market interference. I believe we have a much stronger agriculture today as a result.

What would a return to a more market-oriented agriculture mean? Some might interpret it to mean that government would totally abandon agriculture. I do not believe that would be appropriate. We all recognize the inherent volatility faced in agriculture that is beyond anyone's control, particularly due to weather and world economic situations. And, we have long recognized an appropriate role for a responsible public to share part of that risk with the farmer. But that role cannot extend to providing absolute price protection without regard to the market. This is what we have now for dairy, and we are fast approaching it for grains and cotton—and it doesn't work. Also, the policy instruments used for risk sharing cannot be rigid or calibrated by law at absolute levels. It is simply not possible to fully anticipate inflation or changes in costs, exchange rates and world economic conditions with sufficient precision.

If we have learned anything over the past two years, it is that basing long-term policy on a particular economic scenario is extremely risky. Instead, our tools must be flexible and they must reflect market conditions. I think our experience with loan rates for soybeans, based on a moving average, as provided for in the 1981 Farm Bill should be studied carefully. Such a mechanism, if set at an appropriate percentage of past market prices, could serve to reduce farmers' risk while not seriously interfering with the signals that the market must send. Soybean exports have risen, even in the face of a stronger dollar, while exports for other commodities have stabilized or dropped.

I also believe the public will continue to support a role for the government in assuring that some appropriate level of income protection is provided for our farmers. But, we must reexamine the tools of providing income protection and the level of protection. Whether target prices and deficiency payments are the appropriate tools in a market-oriented agriculture is a valid question that should be addressed.

While it is often assumed that target prices have no impact on markets, there is a growing concern that they remove risks and therefore affect domestic as well as foreign producers' supply decisions—at least indirectly. For instance, I suspect that the Canadians,

Argentines and others have expanded grain production after knowing we have provided a target price significantly above market-clearing levels. These countries know that the budget exposure is great and that we will attempt to move farm prices up towards these targeted levels as we face severe budgetary constraints. And we have confirmed their beliefs as we implemented PIK. Given this, perhaps we should explore some other ways of providing some level of income protection. It seems that a program of income protection should not encourage others to produce more. It is self-defeating and costly. That is why the administration has proposed to freeze target prices at the 1983 level for the 1984 and 1985 crops, and I strongly urge the Congress to pass legislation to that effect.

The concept of a reserve, owned by farmers, is one that some argue makes sense. But what objectives we seek to achieve and how we operate the reserve, are very important questions. If we are to be major partners in world markets, we must be able to assure a reliable supply to all of our customers, both domestic and foreign. The reserve is a logical vehicle to provide that assurance.

A legitimate problem to be addressed through public policy is extreme price instability—price movements too fast and too large to permit farmers or buyers to respond efficiently. In an unstable world, we need to have a mechanism like the reserve that moderates the extreme peaks and valleys to dampen uncertainty. Over the long run, we all benefit from that. While farmers never like to see the peaks moderated, they also realize that the false signals generated by unsustainable prices often lead to uneconomic investment and production responses that exacerbate the downturn in prices and generate cash-flow squeezes.

We also need to examine carefully how much price protection we can afford, how much we desire and for whom. The answers to these questions will help us determine how large our reserve must be as well as when and how it will be released. In the past, the reserve has often been used as a mechanism to enhance prices rather than to assure our buyers we will be reliable suppliers. I think we should examine the extent to which we should use the reserve to protect our farmers from downside price swings and when we should turn to other policy tools. If we rely too much on a reserve to support prices, farmers are motivated

to produce for the reserve, and it can then become too large, as it has recently. When that happens, the reserve becomes less useful as a price enhancement tool, and large programs must be employed to reduce burdensome stocks.

In looking across our farm programs, I cannot help but ask how much price protection is too much? We are not in a position to charge farmers in Canada, the EC, Australia and Argentina for the benefits of U.S.-generated price protection. Nor can we keep these and other countries from expanding production and their share of the world market under any risk-reducing umbrella that we create. The effect of this on our own farmers' ability to compete must be taken into account when we address the question of how much financial protection is enough.

What will a more market-oriented agriculture get for us; and what will it cost? It will, I think, assure that American agriculture remains strong because the strongest, most efficient producers will survive and prosper. Certainly some will fail, but some will also enter. In any healthy, progressive economic sector there is always a continuous sorting out process which favors efficient and competitive firms—and these are not always the largest ones. Those who cannot adapt to emerging technologies and reduced costs will not remain viable over time, unless we assure it artificially through government programs that insulate farmers from the realities of markets. Our position in world markets will be strengthened, and our ability and willingness to compete can only bring more sanity to international markets. The more market-oriented our agriculture, the more expensive it becomes for our competitors, particularly the EC, to insulate their farmers from the marketplace. Market insulation policies on the part of the United States would only prolong the adversarial relationship that is brewing and could lead to trade wars and widespread use of subsidies. A clear signal that the United States is moving down the road to freer markets will hasten the return to more rational trade policies the world over.

I believe that a market-oriented agricultural policy will continue to ensure that we have the most efficient agriculture in the world. On average, today's farmer in the United States produces enough food for about 80 people, far better than farmers in any other country in the world. U.S. farmers now produce nearly three and one-half times more

food and fiber than in 1960, and the rate of increase in productivity continues to outpace that of the nonfarm sector. This is principally why Americans spend a smaller portion of their income on food than people in any other country.

There exists on the horizon an even greater potential for increasing productivity. Current research with growth hormones indicates a tremendous potential for increasing milk and meat animal production. Research in genetic engineering and cloning in the crops area has also revealed the possibility of much higher yields. A more market-oriented farm policy would allow us to assimilate such new technologies without major changes in farm policy. One thing I have learned as secretary of agriculture is that it takes a long time to get the necessary legislative changes to respond to current conditions: PIK legislation, dairy and target price freezes are examples.

Agriculture showed a favorable trade balance of nearly \$24 billion in fiscal 1982, which helps compensate for our deficits in industrial trade. Our strong favorable balance in agricultural trade benefits every American who uses petroleum or imports consumer goods. Also, every \$1 billion in agricultural trade creates an additional \$1 billion in U.S. economic activity; that means jobs—nearly 35,000 jobs for each additional \$1 billion in exports.

Agriculture is our largest industry, accounting for about 20 percent of the entire Gross National Product. Our food and fiber system also employs about 20 percent of the nation's workforce, more than any other industry. This is why we must be careful not to stifle the viability of our leading industry with a farm policy containing too many government controls. Instead, we must pursue a market oriented farm policy in the future with a minimum of government intervention. This will allow agriculture to grow and let our farmers respond to market signals. Also, we must be careful not to set farm policy that precludes the advances in technology and, consequently, gains in productivity.

We are so concerned about future farm policy that we have planned to hold a summit meeting this summer; July 12-13. The purpose of this meeting will be to establish a dialogue between agricultural leaders, producers and industry representatives which will foster discussion that will lead to effective farm policy in the future.

Abraham Lincoln, in seeking a new direction at a key time in our nation's history said, "As our case is new we must think anew and act anew." Agriculture is in a new era of international interdependency, and we must set a new course in farm policy if we are to permit our nation's farmers to enjoy the prosperity that they are entitled to by virtue of their productivity and efficiency.

I urge each of you to think about the issues I have discussed today, and help me in forging better agricultural policies that will serve all of us better in the long run. I know that it will not be easy to do—but we must. We must all rise above the pressures our constituents place on us daily and do the right thing for agriculture. The stakes are too great if we do not—to preserve the most efficient agriculture in the world is the challenge. Please help me meet it.

Thank you. I will now be happy to entertain any questions you may have.

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News Releases

U.S. Department of Agriculture • Office of Governmental and Public Affairs

BLENDDED CREDIT PROGRAM ON COTTON ANNOUNCED FOR KOREA

WASHINGTON, May 13—Secretary of Agriculture John R. Block today announced the allocation of \$50 million in blended credit to South Korea for the purchase of U.S. cotton.

Block said authority also was granted to negotiate blended credit programs for other commodities.

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USDA HONORS 12 EMPLOYEES AND ONE UNIT WITH ITS HIGHEST AWARD

WASHINGTON, May 14—The U.S. Department of Agriculture will honor 12 individual employees and one unit on May 18 with its highest honor—the Distinguished Service Award.

Secretary of Agriculture John R. Block will deliver the keynote address and present the awards during USDA's 37th Annual Honor Awards Ceremony. The ceremony will be held in the Departmental Auditorium located on Constitution Avenue between 12th and 14th Streets, N.W., Washington, D.C., beginning at 10:30 a.m. on May 18.

Those receiving Distinguished Service Awards are:

John E. Carson, Office of Finance and Management; Washington, D.C.;

Claude W. Gifford, Office of Governmental and Public Affairs; Washington, D.C.;

Milo Jean Hassell, Forest Service; Albuquerque, N.M.;

Marvin Jensen, Agricultural Research Service; Fort Collins, Colo.;

Wallace I. Leary, Food Safety and Inspection Service; Washington, D.C.;

Darshan S. Padda, Cooperative Extension Service; St. Croix, U.S. Virgin Islands;

Yeshajahu Pomeranz, Agricultural Research Service; Manhattan, Kan.;

Everett G. Rank, Agricultural Stabilization and Conservation Service; Washington, D.C.;

Richard A. Smith, Foreign Agricultural Service; Washington, D.C.; and The California Mediterranean Fruit Fly Eradication Team, Seattle, Wash.

Superior Service Awards, USDA's second highest honor, will be presented to 53 individuals and 18 groups the same day.

Members of the 1983 Honor Awards Committee are:

Richard Douglas, assistant deputy secretary, chairperson; June Bradley, president, American National Cowbelles, Springfield, Colo.; LaGree S. Daniels, chairperson of the National Black Republican Council, Harrisburg, Pa.; John F. Rundquist, president, Illini Grain and Livestock, Inc., Butler, Ill.; Charles Scruggs, editor, Progressive Farmer, Birmingham, Ala.; Elton R. Smith, president, Michigan Farm Bureau, Lansing, Mich.; and William H. Walker, III, commissioner, Tennessee Department of Agriculture, Nashville, Tenn.

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USDA HONORS 65 EMPLOYEES AND 19 UNITS AT ANNUAL AWARDS CEREMONY

WASHINGTON, May 14—The U.S. Department of Agriculture will honor 65 individuals and 19 groups during its 37th annual honor awards program on May 18.

Secretary of Agriculture John R. Block will deliver the keynote address and present the awards during ceremonies in the Departmental Auditorium on Constitution Avenue between 12th and 14th Streets, N.W., Washington, D.C., beginning at 10:30 a.m.

Block will present the highest award—the Distinguished Service Award—to 12 individuals and one unit. He will present the second highest award—the Superior Service Award—to 53 individuals and 18 groups. He will also recognize the recipients of three major external awards—the William A. Jump Memorial Award, the Arthur S. Flemming Award and the Alexander von Humboldt Foundation Award.

Award winners are:

Distinguished Service Award

T. Don Canerday, Cooperative Extension Service; Athens, Ga.;

John B. Campbell, Cooperative Extension Service; North Platte, Neb.;

Albert M. Carey, Food Safety and Inspection Service; Beltsville, Md.;

John E. Carson, Office of Finance and Management; Washington, D.C.;

Claude W. Gifford, Office of Governmental and Public Affairs; Washington, D.C.;

Milo Jean Hassell, Forest Service; Albuquerque, N.M.;

Marvin Jensen, Agricultural Research Service; Fort Collins, Colo.;

Wallace I. Leary, Food Safety and Inspection Service; Washington, D.C.;

Darshan S. Padda, Cooperative Extension Service; St. Croix, U.S. Virgin Islands;

Yeshajahu Pomeranz, Agricultural Research Service; Manhattan, Kan.;

Everett G. Rank, Agricultural Stabilization and Conservation Service; Washington, D.C.;

Richard A. Smith, Foreign Agricultural Service; Washington, D.C.; and California Mediterranean Fruit Fly Eradication Team; Seattle, Wash.

Superior Service Award

Alabama

Elvin V. Wright, Soil Conservation Service; Greensboro

Cullman County Rural Development Committee, Office of Rural Development Policy; Cullman

Alaska

John A. Sandor, Forest Service; Juneau

Arkansas

Jo Ann Wood, Agricultural Stabilization and Conservation Service;
Marion

California

James E. Duffus, Agricultural Research Service; Salinas
Matilda Wong, Agricultural Research Service; Oakland
Mosquito Ridge Rescue Team, Forest Service; Greenville

Colorado

Donald C. Randall, Jr., Animal and Health Inspection Service;
Englewood

Florida

Insect Chemistry Research Unit, Agricultural Research Service;
Gainesville

Georgia

Marjorie V. Cain, Forest Service; Athens
Charlie C. Simmons, Food Nutrition Service; Atlanta
In-Transit Shipboard Fumigation Team, Agricultural Research
Service; Savannah

Idaho

Albert R. Stage, Forest Service; Moscow

Indiana

Leona M. Lawson, Soil Conservation Service; Indianapolis

Iowa

C. Phillip Baumel, Cooperative Extension Service; Ames
C. Merle Lawyer, Soil Conservation Service; Harlan
Diagnostic Virology Laboratory, Animal and Plant Health Inspection
Service; Ames

Illinois

Ellery L. Knake, Cooperative Extension Service; Urbana
Marshall D. McGlamery, Cooperative Extension Service; Urbana
Joint Audit and Investigation Computer Matching Team, Office of
the Inspector General; Chicago

Louisiana

Malcolm J. Ledet, Office of Administrative Systems; New Orleans
Milton J. Mire, Agricultural Stabilization and Conservation Service;
Crowley
Louisiana Extension Film Production Team, Cooperative Extension
Service Baton Rouge

Maryland

David J. Bell, Animal and Plant Health Inspection Service;
Hyattsville
Edgar L. Todd, Soil Conservation Service; Denton
Owen C. Unangst, Soil Conservation Service; Frederick
Raymon E. Webb, Agricultural Research Service; Beltsville

Michigan

Betty Ann Shelby, Cooperative Extension Service; Grand Rapids

Missouri

Leonce A. Cambre, III, Forest Service; Rolla
William K. Harris, Federal Crop Insurance Corporation; Marshall

New Hampshire

Lillian M. Leroux, Forest Service; Laconia

New Jersey

Richard D. Chumney, National Association of State Departments of
Agriculture; Trenton

New Mexico

Berwyn L. Brown, Forest Service; Cuba
Abel Zamora, Forest Service; Alamogordo

New York

James E. Dewey, Cooperative Extension Service; Ithaca

North Dakota

North Dakota Farm and Ranch Development Committee, Office of Rural Development Policy; Bismarck

Oklahoma

Roland R. Willis, Soil Conservation Service; Stillwater
Community and Business Programs Staff, Farmers Home Administration; Stillwater

Oregon

James Gould Bradley, Forest Service; Enterprise
Tillamook County Local Coordinating Committee, Agricultural Stabilization and Conservation Service; Tillamook **Pennsylvania**
Forest Inventory and Analysis Work Unit, Forest Service; Broomall

South Carolina

Marvin K. Burgess, Soil Conservation Service; Columbia

Tennessee

Tellico River Rescue, Forest Service; Tellico Plains

Texas

Charles N. Bollich, Agricultural Research Service, Beaumont
Hoover Carden, Cooperative Extension Service; Prairie View
Fred E. Minzenmayer, Soil Conservation Service; Alice

Utah

Gene D. Amman, Forest Service; Ogden

Washington

R. James Cook, Agricultural Research Service; Pullman
Mount St. Helens National Volcanic Monument Planning and
Implementation Group, Forest Service; Vancouver

Wisconsin

Richard D. Durbin, Agricultural Research Service; Madison
Richard E. Kinney, Forest Service; Madison

Washington, D.C.

James R. Baarda, Agricultural Cooperative Service
Emma L. Bennett, Agricultural Marketing Service
Frank W. Bennett, Rural Electrification Administration
Gerald L. Clampet, Statistical Reporting Service
Robert I. Coltrane, Economic Research Service
Joseph R. Ellis, Economics Management Staff
John R. Erickson, Forest Service
Mary Ann Higgs, Statistical Reporting Service
Wallace A. Lindell, Foreign Agricultural Service
John T. Reeves, Agricultural Marketing Service
Robert E. Sherman, Office of Budget and Program Analysis
Kenneth L Williams, Soil Conservation Service
William L. West, Food Safety and Inspection Service
Kathryn A. Zeimetz, Economic Research Service
Agricultural Land Evaluation and Site Assessment (LESA)
Implementation Team, Soil Conservation Service
Alpine Meadows Search and Rescue Team, Forest Service
Development Planning and Analysis Staff, Office of International
Cooperation and Development
Planning and Analysis Staff, Foreign Agricultural Service
The FSIS Sodium Information Team, Food Safety and Inspection
Service

Singapore

James Iso, Foreign Agricultural Service; Singapore

WILLIAM A. JUMP MEMORIAL AWARD: Karen M. Poe, Bureau of Policy and Coordination, Agency for International Development, Washington, D.C.

ARTHUR S. FLEMMING AWARD: Leonard J. Lane, Agricultural Research Service, Tucson, Ariz.

ALEXANDER VON HUMBOLDT FOUNDATION AWARD: Howard L. Bachrach, Agricultural Research Service, Greenport, N.Y.

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USDA EXEMPTS RENDERING PLANTS FROM GARBAGE TREATMENT REGULATIONS

WASHINGTON, May 16—Rendering plants will be exempt from animal health regulations governing treatment of food wastes fed to swine, a U.S. Department of Agriculture official said today.

USDA licenses processors who treat food wastes fed to swine, but has no need to license or inspect renderers since their normal processes exceed USDA standards, according to John K. Atwell, deputy administrator of USDA's Animal and Plant Health Inspection Service.

Under the Swine Health Protection Act, food wastes fed to swine must be treated to destroy any disease organisms. Regulations require boiling at 212 degrees Fahrenheit for a minimum of one-half hour.

"Rendered products such as bone meal, animal protein meals, grease and tallow are produced by cooking food wastes at 230 degrees Fahrenheit or higher," Atwell said. "Rendering plants usually are licensed by states, and rendered products are under the jurisdiction of the Food and Drug Administration."

This amendment to the swine health protection regulations is scheduled to be published in the May 18 Federal Register.

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SOVIET UNION AGREES TO TALKS ON A NEW LONG-TERM GRAIN AGREEMENT

WASHINGTON, May 17—Secretary of Agriculture John R. Block and U.S. Trade Representative William E. Brock announced today the Soviet Union yesterday accepted a proposal announced April 22 by President Reagan to negotiate a new long-term grain agreement with the United States.

The current five-year agreement with the Soviet Union, beginning in October 1975, was extended for a sixth and seventh year. Under the terms of that agreement, the Soviet Union was required to purchase at least 6 million metric tons of U.S. wheat and corn annually. They could purchase up to 8 million metric tons without further consultations. That agreement expires this October.

"President Reagan has continued to reaffirm our intention to be a reliable supplier," Block said. "The Soviet Union's willingness to sit down and negotiate a new LTA is a strong indication that his message is being heard. We are getting the pieces put back together again."

The negotiations will be the responsibility of the U.S. trade representative in close coordination with the secretary of agriculture and the secretary of state.

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FACT SHEET U.S. - SOVIET GRAIN TRADE

- In September 1975, the U.S. began to negotiate a long-term grain agreement (LTA) with the Soviets. On Oct. 20, 1975, a 5-year agreement was signed. Among other things, the agreement called for the USSR to purchase a minimum of 6 million metric tons of U.S. grain annually, to be split in approximately equal shares between wheat and corn. Additionally, the USSR may purchase 2 metric tons of the grains in any combination without government-to-government consultations.
- U.S. grain exports to the USSR rose over the course of the LTA, reaching a high of 15.2 million tons in 1979.
- In January 1980, President Carter imposed a partial embargo on sales of U.S agricultural products to the USSR.

- On April 24, 1981, President Reagan lifted the embargo.
- On Aug. 5, 1981, the existing LTA which was due to expire on Sept. 30 of that year, was extended for one year. At that time, the U.S. offered an additional 15 million tons over and above the 8 million tons already "committed" for the sixth year of the LTA.
- On March 22, 1982, the president reaffirmed that agricultural exports would not be restricted because of rising domestic prices, nor would they be used as an instrument of foreign policy except in extreme cases when national security is involved. He also announced that world markets must be freed of trade barriers and unfair trade practices.
- In August 1982 the U.S.-USSR LTA was extended for an additional year.
- On April 22, 1983, President Reagan announced that the U.S. had proposed to the Soviet Union the negotiation of a new LTA.
- On May 16, 1983, the Soviet Union officially accepted President Reagan's proposal to negotiate a new LTA.

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USDA REVIEWS RULE RESTRICTING EXPORTS OF CONTRACT ADDITIONAL PEANUT PRODUCTS

WASHINGTON, May 18—Everett Rank, executive vice president of the U.S. Department of Agriculture's Commodity Credit Corporation today asked for comments about restrictions on the export of contract additional peanut products to Canada and Mexico.

The restriction, which has been in effect since 1978, recently became an issue because of the substantial price differential between the U.S. and world market prices for peanuts, Rank said.

Contract additional peanuts are grown primarily for export. They are required by law to be exported or to be crushed into meal and oil.

Rank said domestic peanut processors have strongly supported removing the restriction on the export of peanut products to Canada and Mexico because they believe it places them at a price disadvantage in maintaining their current markets in these countries.

Rank said the price differential, however, has made exportation and reimportation of products made from contract additional peanuts potentially profitable recently. In addition, reimportation of these products can displace quota peanuts, thus resulting in a monetary loss to the U.S. government.

Although peanut products made from contract additional peanuts can be reimported into the United States undetected, unprocessed peanuts can be monitored by USDA. While unprocessed contract additional peanuts remain available for export to all nations, including Canada and Mexico, reimporting these peanuts is prohibited.

Details of the proposed peanut export rule appear in the May 18 Federal Register. The deadline for receiving comments is July 18.

Comments should be sent to the director, tobacco and peanuts division, USDA/ASCS, P.O. Box 2415, Washington, D.C. 20013.

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PESTICIDE EFFECTIVENESS DECLINING IN SOME SOILS; MICROORGANISMS BLAMED

BELTSVILLE, Md., May 19—Repeated use of similar pesticides in soils is stimulating a buildup of soil microorganisms that rapidly degrade these chemicals, a U.S. Department of Agriculture researcher said today.

Result: The effectiveness of these chemicals sometimes is reduced from months to days and farmers have little or no pest control.

Donald D. Kaufman, a microbiologist for USDA's Agricultural Research Service, said the loss of pesticide effectiveness is occurring in an increasing number of farm soils. He spoke at the Beltsville Agricultural Research Center's eighth annual symposium, "Agricultural Chemicals of the Future."

Kaufman said the pesticide problem came to light about eight years ago in the Midwest. Corn farmers there began reporting that certain insecticides and herbicides with similar chemical structures were not doing the job they were supposed to do.

From 1978 to 1980, when Kaufman first began studying the

problem, the number of farmers reporting a lack of chemical efficacy rose tenfold and has continued to climb steadily.

The chemicals included insecticides used to control corn rootworm and herbicides used against nutsedge and certain grasses.

The complaints no longer are restricted to these pesticides or to Midwestern corn, Kaufman said, and are beginning to spread to soybeans, vegetables and other commodities where farmers use the same chemicals year after year.

The insecticides, herbicides, fungicides and fertilizers in question are incorporated into the soil, where they come in direct contact with the microorganisms.

"A microorganism that adapts to utilize one chemical can quickly adjust to utilize a similar chemical," Kaufman said. Certain pesticides also can trigger this adaptation even though they do not themselves serve as a food source for micro-organisms.

While the loss of control in some instances is due to the pests acquiring resistance, Kaufman and others are convinced that soil microbes are magnifying the problem by dismantling these pesticides well before their time.

Kaufman suspects that because many of these chemicals are formulated as slow-release granules they provide the microorganisms with a slow, steady "food" supply to keep their inflated populations going. In addition, the systemic pesticides, which become tied up in plant tissue, are released as the plant decomposes.

Other major classes of pesticides without these structural similarities do not, as yet, appear to be affected by this phenomenon, Kaufman said. However, he said that some farmers who have switched to these other chemicals also are beginning to have efficacy problems.

Ultimately, manufacturers may have to change pesticide chemistry, the researcher said, but it will be years before unrelated products are on the market. For the present, he said, farmers can prevent or at least delay the loss of pest control by rotating both crops and pesticides.

Farmers should check their fields or use Extension or private services to make sure they indeed have a pest problem serious enough to warrant applying pesticides.

Kaufman, who has studied numerous soil samples, found that populations of known pesticide-degrading microbes are higher in soils

having a history of pesticide use—sometimes several times higher. When he mixed structurally similar pesticides into the two soils, the pesticides generally broke down more rapidly in the problem soils.

"Scientists have paid considerable attention to the behavior of individual chemicals in the soil microbial environment," said Kaufman. He himself has been studying such questions for 20 years as a member of the research agency's Pesticide Degradation Laboratory in Beltsville.

"Only scant attention has been given to the effect of multiple applications of individual pesticides or combinations of pesticides or their persistence in soils," he said. To fill the gap, Kaufman is creating complete soil histories in a telescoped time frame by testing all chemicals used on corn and soybeans in many of their various combinations.

He also is taking a close look at the microorganisms which account for the sudden loss of efficacy because he questions whether all of the bacteria, fungi or actinomycetes that he finds in elevated numbers in problem soils are culprits.

So far, he has identified two classes of soil fungi, the Verticillia and the Fusaria, and several new bacterial species that are the most active decomposers of these pesticides.

Getting a handle on the soil microorganism-pesticide picture won't be easy, in Kaufman's view, because the relationships are complicated.

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DANIEL G. AMSTUTZ ASSUMES OFFICE OF UNDER SECRETARY OF AGRICULTURE

WASHINGTON, May 18—Daniel G. Amstutz has officially assumed the position of under secretary of agriculture for international affairs and commodity programs, according to Secretary of Agriculture John R. Block.

Amstutz was confirmed by the U.S. Senate May 16 and will be formally sworn in May 23. He fills the vacancy created when Seeley G. Lodwick resigned Feb. 28.

Amstutz previously was a general partner of Goldman, Sachs and Company of New York, an investment banking firm where he developed and directed commodity activities since 1978.

Before that, he had been associated with Cargill, Inc., for nearly 25 years. From 1972 to 1978, he was president and chief executive officer of Cargill Investor Services, a commodity brokerage and consulting firm which he created.

While with Cargill, Inc., Amstutz was director of feed grain merchandising and deputy director of wheat merchandising. He was responsible for hedging operations and for coordinating domestic and export merchandising activities. He also served as manager of Cargill activities in Germany and the Scandinavian countries. He was one of the original cadre of Cargill officials who created the company's overseas organization, TRADAX, in Geneva, Switzerland.

Amstutz has been a member of the executive committee and director of the National Grain and Feed Association and director of the U.S. Feed Grains Council. He was also a member of the Chicago Board of Trade, the Chicago Mercantile Exchange, and other principal commodity exchanges.

He received his Bachelor of Science degree from the Ohio State University, Columbus, and is a member of the university's President's Club. While an undergraduate, he served as student body president.

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FEDERAL AGENCIES TO INCREASE COOPERATION ON LABORATORY ANIMAL CARE

WASHINGTON, May 19—The U.S. Departments of Agriculture and Health and Human Services have signed an interagency agreement aimed at cutting costs and standardizing federal requirements for the care and treatment of laboratory animals.

"Federal agencies have cooperated informally for years in carrying out their respective laboratory animal welfare responsibilities," said James O. Lee, Jr., who signed the new interagency agreement for USDA's Animal and Plant Health Inspection Service.

"By formalizing the cooperative process, the agreement sets the stage for continually improving industry compliance and realizing savings in staff and tax dollars while maintaining a high level of laboratory animal care," said Lee, who is associate administrator for the agency.

Others who signed the agreement are Arthur Hull Hayes, Jr., commissioner of the Food and Drug Administration, and James B. Wyngarden, director of the National Institutes of Health.

Specifically, the agencies agreed to share information on regulated institutions. They also will:

- Coordinate inspection schedules so they will have the most impact.
- Share information on significant deficiencies in animal care and welfare found by inspections and indicate followup actions taken.
- Share other evidence of serious noncompliance.
- Cooperate in standardizing new regulations or policies.
- Exchange resource persons for scientific seminars, speeches and workshops related to animal care.

Each of the agencies has some authority for fostering proper animal care and welfare. USDA enforces the Animal Welfare Act, which regulates registered research facilities using laboratory animals. Those who use laboratory animals are inspected to see they follow ten specific federal standards relating to animal care, treatment and transportation.

The Food and Drug Administration's authority comes from the Federal Food, Drug and Cosmetic Act, which requires proper conduct of laboratory studies that include animals. FDA officials conduct periodic compliance inspections.

The National Institutes of Health implements the animal welfare policy of the Public Health Service. Each institution receiving monetary support for research involving warmblooded laboratory animals must adhere to 12 basic principles of humane care, detailed in the NIH "Guide for the Care and Use of Laboratory Animals." The agency can stop support of a project or an entire institution that does not handle laboratory animals properly.

The agreement establishes a standing committee of liaison officers, who will meet at least once per year to review the effectiveness of the agreement and suggest possible modifications. Currently serving in that

capacity are: Arnett Matchett, chief staff veterinarian for animal medicine and technology for USDA's Animal and Plant Health Inspection Service; Paul D. Lepore, staff scientist for bioresearch monitoring for FDA; and Charles R. McCarthy, director of the office for protection from research risks for NIH.

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USDA OFFICIAL SEEKS EXPANDED U.S. TRADE IN FAR EAST

WASHINGTON, May 20—Assistant Deputy Secretary of Agriculture Richard Douglas is visiting China, Hong Kong and Japan, seeking new opportunities for expanded U.S. trade in agriculture.

The principal purpose of his trip is to represent the U.S. Department of Agriculture at meetings of the U.S.-China Joint Commission on Science and Technology May 9-11, and the U.S.-China Joint Committee on Commerce and Trade on May 23-25.

After participating in meetings with the U.S. delegation in Beijing for the two conferences, Douglas will meet with cooperators at the trade office and visit a model bakery. He also plans to visit with vice-ministers of agriculture, foreign trade or commerce.

In Tokyo, May 14 and 16, Douglas will meet with U.S. Commerce Secretary Baldrige, who heads the U.S. delegation, and with Japanese Vice-minister of and Foreign Trade Matsumoto.

After visiting with officials in Hong Kong and Shanghai, Douglas plans to return to Washington late in May.

One of USDA's highest ranking black executives, Douglas was appointed to his position by Agriculture Secretary John R. Block in September, 1981.

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Backgrounder

U.S. Department of Agriculture • Office of Governmental and Public Affairs

THE COST OF PIK

To present a balanced and informed cost assessment of the payment-in-kind (PIK) program, it is necessary to examine the program from a broad perspective.

In simple terms, PIK is a program in which farmers will receive, in payment for not producing certain crops, a percentage of what they would have produced. For example, if farmers chose to reduce their historic corn planting by 100 acres, the government would give them 80 percent of what they would have harvested. Percentages of compensation vary for each crop: corn, sorghum, wheat, cotton and rice.

Commodities used by government for the in-kind compensation will basically come from loan forfeitures or government-owned stocks. When the government lends money to farmers who participate in farm programs, a certain amount of their commodity is committed as collateral. When the loan is due, a farmer has the option to repay the loan or forfeit the commodity to the government, which accepts the commodity as full payment for the loan, including interest and any storage costs.

The book value of government-owned and supported commodities to be used for PIK is about \$12 billion. Using the published current services budget (which assumes a continuation of past farm programs) and the president's 1984 budget (adjusted for consistency but with a PIK program), the PIK program is estimated to reduce outlays, and thus the budget deficit, by \$9 billion through FY 1986.

The decision to implement PIK was based on conditions in late 1982. Farmers faced a possible fourth year of reduced income. The outlook was dominated by weak export demand, a loss in Soviet purchases following the 1980 embargo, growing surplus stocks, low crop prices and large farm price support outlays (over \$21 billion in FY 83). With such a supply/demand imbalance, a massive acreage reduction was in order.

In considering the actual cost of PIK, it is necessary to speculate what conditions would be without the program.

Historically, when farm prices remain low, farmers tend to forfeit commodities to the government rather than repay loans. This increases government holdings and net outlays instead of decreasing them, as PIK will do.

The theory that these government-owned and supported stocks could someday be resold on the market, thus balancing the books, was not realistic. The chances of market prices rising high enough to allow the government to legally sell the commodities were slim to none. Meanwhile, the government would continue paying storage and interest. The carrying costs per bushel of corn for three years approaches \$1.50 per bushel—about one-half of the market value of corn. Over \$3 billion in carrying costs through FY 86 is saved by PIK.

Even when the government could legally sell the stocks, it would likely not be in the best interests of agriculture. When there's a large increase in the volume of the commodity being sold—prices go down. Massive sales of government stocks would depress market prices and ultimately increase the cost of future farm programs. This will be avoided with an effective PIK program.

Some of the advantages of PIK, both long-term and immediate, are:

1. PIK has already brought a turnaround in farm prices. Since the implementation of PIK, prices farmers receive for corn have increased nearly 20 percent; wheat prices, nearly 5 percent. And since the price of these commodities represents only a fraction of the retail value of food, the effects on consumers will be insignificant.
2. From FY 83-86, income support deficiency payments paid by government to farmers are expected to be reduced by over \$3 billion as a result of higher market prices caused by PIK.
3. About \$2 billion will also be saved by lower diversion payments. The PIK program, even after adding acquisition costs, is expected to reduce total government outlays for commodity programs by over \$9 billion from FY 83 through FY 86 when smaller categories of savings are included.
4. Higher incomes for farmers mean less external financing from agencies such as the Farmers Home Administration. Also, taking land out of intensive production means this land is less susceptible to erosion.

In summary, the government is paying farmers with commodities that have a book value of about \$12 billion. But book values do not mean much in this case since the government cannot sell the commodities. The options were to either continue having the government pay storage on these commodities, or to put the commodities to practical use. The PIK program has been determined as the option which presents the best practical use while at the same time reducing the federal deficit.

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